

**OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA**  
Baton Rouge, Louisiana

Special Purpose Financial Statements  
and Independent Auditor's Reports  
As of and for the Year Ended June 30, 2003  
With Supplemental Information Schedule

December 24, 2003



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**Albert J. Robinson, Jr., CPA**

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**OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA**  
Baton Rouge, Louisiana

Special Purpose Financial Statements  
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As of and for the Year Ended June 30, 2003  
With Supplemental Information Schedule

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

December 24, 2003

**OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA**

Special Purpose Financial Statements  
and Independent Auditor's Reports  
As of and for the Year Ended June 30, 2003  
With Supplemental Information Schedule

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OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
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December 2, 2003

Independent Auditor's Report  
on the Financial Statements

**OFFICE OF GROUP BENEFITS**  
**DIVISION OF ADMINISTRATION**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

We have audited the accompanying special purpose (legal basis) financial statements of the Office of Group Benefits, an office within Louisiana state government, as of and for the year ended June 30, 2003. These financial statements are the responsibility of management of the Office of Group Benefits. Our responsibility is to express an opinion on these special purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1-B to the financial statements, the accompanying special purpose financial statements present only the funds of the Office of Group Benefits. As such, they present the appropriated and non-appropriated activity of the office that are part of the accounts and fund structure of the State of Louisiana. The Ancillary Appropriation Fund reflects appropriated activity of the office that is part of the General Fund of the State of Louisiana. The non-appropriated fund is an individual fund of the State of Louisiana not subject to budgetary control. Furthermore, the special purpose financial statements have been prepared on a legal basis of accounting, the purpose of which is to reflect compliance with the annual appropriation act for the appropriated fund and the financial position of the non-appropriated fund. These procedures differ from accounting principles generally accepted in the United States of America as described in the notes to the financial statements. Accordingly, the accompanying special purpose financial statements do not purport to, and do not, present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

LEGISLATIVE AUDITOR

OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA

Audit Report, June 30, 2003

In our opinion, the special purpose financial statements referred to previously present fairly, in all material respects, the balances within the appropriated and non-appropriated funds of the Office of Group Benefits at June 30, 2003, and the transactions of such funds for the year then ended, on the basis of accounting described in note 1-D.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 2, 2003, on our consideration of the Office of Group Benefits' internal control over financial reporting and our tests of its compliance with certain laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the accompanying special purpose financial statements of the Office of Group Benefits taken as a whole. The accompanying supplemental information schedule is presented for the purpose of additional analysis and has been subjected to the auditing procedures applied in the audit of the special purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special purpose financial statements taken as a whole.

This report is intended solely for the information and use of the office and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Grover C. Austin". The signature is fluid and cursive, with a large, stylized initial "G".

Grover C. Austin, CPA  
First Assistant Legislative Auditor

DBS:EFS:PEP:ss

[OGB03]

**OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA  
ALL APPROPRIATED AND NON-APPROPRIATED FUNDS**

**Balance Sheet (Legal Basis), June 30, 2003**

	APPROPRIATED FUND - ANCILLARY APPROPRIATION	NON-APPROPRIATED - AGENCY FUND	TOTAL (MEMORANDUM ONLY)
<b>ASSETS</b>			
Cash (note 2)	\$90,057,572	\$131,696	\$90,189,268
Receivables - fees and self-generated revenues	24,303,210		24,303,210
Other receivables		31,941	31,941
<b>TOTAL ASSETS</b>	<b>\$114,360,782</b>	<b>\$163,637</b>	<b>\$114,524,419</b>
<b>LIABILITIES AND FUND EQUITY</b>			
Liabilities:			
Payables (note 7)	\$25,980,362		\$25,980,362
Amounts held in custody for others		\$34,615	34,615
Other liabilities		129,022	129,022
Advance due to state treasury (note 13)	50,000		50,000
Deferred revenues	36,843		36,843
Estimated liabilities (note 8)	69,800,000		69,800,000
Total Liabilities	95,867,205	163,637	96,030,842
Fund Equity - fund balance	18,493,577	NONE	18,493,577
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$114,360,782</b>	<b>\$163,637</b>	<b>\$114,524,419</b>

The accompanying notes are an integral part of this statement.

OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA  
ANCILLARY APPROPRIATION FUND

Statement of Revenues, Expenditures, and  
Changes in Fund Balance (Legal Basis)  
For the Year Ended June 30, 2003

**REVENUES**

Appropriated by legislature:

State General Fund by fees and self-generated revenues	\$913,120,822
--	---------------

**EXPENDITURES**

Appropriated for health and life insurance for  
active and retired public employees

814,783,270
-------------

**EXCESS OF REVENUES OVER EXPENDITURES**

98,337,552
------------

**FUND BALANCE (Deficit) AT BEGINNING OF YEAR -  
AS RESTATED (note 16)**

(79,843,975)
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**FUND BALANCE AT END OF YEAR**

\$18,493,577
--------------

The accompanying notes are an integral part of this statement.



OFFICE OF GROUP BENEFITS  
 DIVISION OF ADMINISTRATION  
 STATE OF LOUISIANA  
 ANCILLARY APPROPRIATION FUND

Statement of Revenues, Expenditures, and  
 Unexpended Appropriation - Budget  
 Comparison of Current-Year Appropriation -  
 Budget (Legal Basis) and Actual  
 For the Year Ended June 30, 2003

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<b>REVENUES</b>			
Appropriated by legislature:			
State General Fund by fees and self-generated revenues	\$823,615,546	\$913,118,177	\$89,502,631
<b>EXPENDITURES</b>			
Appropriated for health and life insurance for active and retired public employees	<u>823,615,546</u>	<u>817,375,133</u>	<u>6,240,413</u>
<b>UNEXPENDED APPROPRIATION - CURRENT YEAR</b>	<u>NONE</u>	<u>\$95,743,044</u>	<u>\$95,743,044</u>

The accompanying notes are an integral part of this statement.

**OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA**

Notes to the Financial Statements  
As of and for the Year Ended June 30, 2003

**INTRODUCTION**

The Board of Trustees of the State Employees Group Benefits was created within the Office of the Governor, Division of Administration, effective July 1, 1998, as provided by Louisiana Revised Statutes (R.S.) 42:871-879. Act 1178 of the 2001 Regular Session of the Louisiana Legislature changed the name of the State Employees Group Benefits Program to the Office of Group Benefits and removed the authority of the Board of Trustees to make policy decisions.

The office was formed to administer a program of group health and life insurance for active and retired state employees, active and retired school board employees, and certain political subdivisions' employees, as authorized by state statute. The office also administers the cafeteria plan and flexible-spending plan for plan members. The office's operations are divided into executive, administrative services, field service, claim service, claims processing, fiscal, data processing, and quality assurance functions. Approximately 127,834 plan members are enrolled in the program for fiscal year 2002-2003, of which 30,054 are enrolled through HMO contracts. The office has 355 authorized full-time staff positions. Funds are reestablished annually by provisions of the Ancillary Appropriations Act.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. BASIS OF PRESENTATION**

The Governmental Accounting Standards Board (GASB) promulgates accounting principles generally accepted in the United States of America and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. However, the accompanying special purpose financial statements have been prepared on a legal basis prescribed by the Division of Administration, Office of Statewide Reporting and Accounting Policy, which differs from accounting principles generally accepted in the United States of America as explained in the following notes.

**B. REPORTING ENTITY**

The State of Louisiana has been determined to be the reporting entity under accounting principles generally accepted in the United States of America. The accompanying financial statements represent activity of an office of state government and, therefore, are a part of the funds of the State of Louisiana and its basic financial statements. Annually, the State of Louisiana issues basic financial statements that are audited by the Louisiana Legislative Auditor.

**OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

**C. FUND ACCOUNTING**

The Office of Group Benefits uses fund accounting, along appropriation lines, to reflect its compliance with provisions of the annual appropriation act and to reflect the financial position of its non-appropriated funds. This differs from the fund accounting of accounting principles generally accepted in the United States of America where the intent is to measure the financial position and results of operations of the governmental reporting entity as a whole. Therefore, the funds within the accompanying financial statements have been divided between appropriated and non-appropriated funds and not by the conventional fund types.

The funds do not include any noncurrent assets or liabilities. Noncurrent assets, capital assets, and long-term liabilities are reflected in the State of Louisiana's basic financial statements.

The funds presented in the special purpose financial statements are described as follows:

**APPROPRIATED FUNDS**

**Ancillary Appropriation Fund**

The Office of Group Benefits administers a self-insured group health insurance program and group life insurance program for state employees, for other specified public employees, and for individuals who qualify for continued group health coverage under the Consolidated Omnibus Reconciliation Act (COBRA) of 1985. The group life insurance program is underwritten by Prudential Insurance Company of America. This fund accounts for the office's appropriated revenues, operating expenditures, and minor capital acquisitions.

**NON-APPROPRIATED FUND**

**Agency Fund - Dependent Care Flexible Medical Spending Account  
Plan/Health Care Flexible Spending Account Plan**

The Dependent Care Flexible Medical Spending Account Plan/Health Care Flexible Spending Account Plan agency fund accounts for transactions of a qualified dependent care assistance program pursuant to Internal Revenue Code, Title 26, Subtitle A, Chapter 1, Subchapter B, Part III, Section 129, and transactions related to qualified amounts received under accident and health plans pursuant to Internal Revenue Code, Title 26, Subtitle A, Chapter 1, Subchapter B, Part III, Section 105. Plan members make deposits into the fund through payroll deductions and make withdrawals when qualifying expenditures have been incurred. This fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

**OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

**D. BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The funds in the accompanying financial statements measure the resources provided by the legislature to fund current-year expenditures and the use of those resources by the program.

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements, regardless of the measurement focus applied. The accompanying financial statements reflect revenues and expenditures in accordance with applicable statutory provisions and regulations of the Division of Administration, Office of Statewide Reporting and Accounting Policy.

Under the foregoing legal provisions, the office uses the following practices in recognizing revenues and expenditures:

**Revenues**

Fees and self-generated revenues are recognized when earned, to the extent that they will be collected within 45 days of the close of the fiscal year.

**Expenditures**

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except that obligations of employees' vested annual and sick leave are recognized as expenditures when paid. Furthermore, any expenditures of a long-term nature for which funds have not been appropriated during the current year are not recognized in the accompanying financial statements.

**E. BUDGET PRACTICES**

The ancillary appropriation, made for the operations of the office, is an annual lapsing appropriation consisting of self-generated funds. Revenues and expenditures for budget purposes are recognized on the basis of accounting as described in note 1-D, except that revenues reflected on Statement C include carryover monies and receipts that have been recorded as deferred revenue when collected. In addition, salaries and related benefits and health claims are recognized when paid on Statement C. The revenues and expenditures shown on Statement B are reconciled with the respective amounts shown on Statement C as follows:

**OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

Statement B revenues	\$913,120,822
Add - deferred revenues	36,843
Less - prior-year deferred revenues	<u>(39,488)</u>
Statement C revenues	<u><u>\$913,118,177</u></u>
Statement B expenditures	\$814,783,270
Add:	
Estimated liabilities (net)	2,663,000
Return of appropriation	1,245
Less - payroll payable (net)	<u>(72,382)</u>
Statement C expenditures	<u><u>\$817,375,133</u></u>

The office is prohibited by statute from over expending the program levels established in the budget. Budget revisions are granted by the Joint Legislative Committee on the Budget. Interim emergency appropriations may be granted by the Interim Emergency Board. The budget information included in the financial statements includes the original appropriation of \$823,615,546. There were no amendments.

Statement C reflects that the office did not exceed its budget for fiscal year 2002-2003. The annual appropriation provides that any unexpended balance in the office's self-generated funds may be retained as fund equity to fund future expenditures of the office. The non-appropriated funds are not subject to budgetary control.

**F. CASH**

Cash includes cash on hand, demand deposits, and cash in state treasury. Under state law, the office may deposit funds with a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the union, or the laws of the United States.

**G. LONG-TERM OBLIGATIONS**

The office is by statute not allowed to incur bonded indebtedness and, therefore, no recognition within the accompanying financial statements is necessary. Furthermore, any long-term obligations of the office arising from installment purchases, lease commitments, judgments, compensated absences, loss adjusting expenses for health claims, or from any other source are not recognized in the accompanying special purpose financial statements.

**OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

**H. COMPENSATED ABSENCES**

Employees earn and accumulate annual and sick leave at various rates, depending on their years of service, without limitation on the balance that can be accumulated. Upon separation of employment, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay but are not compensated for unused sick leave. Unused annual leave in excess of 300 hours plus unused sick leave is used to compute retirement benefits. The liability for unused annual and sick leave is not recorded in the accompanying financial statements.

Certain employees of the office are eligible to earn compensatory time, as defined by the Department of Civil Service and the Fair Labor Standards Act. These employees can earn and accumulate one hour or one and one-half hour for each hour of overtime worked, depending on their position and rate of pay. Generally, the employees are allowed to carry up to 360 hours of accrued compensatory leave from one calendar year to another; however, under federal regulations, certain employees are compensated for unused compensatory leave six months after the end of the quarter in which the leave was earned. Accumulated compensatory leave is not accrued (reflected) in the accompanying special purpose financial statements.

**I. TOTAL COLUMN ON BALANCE SHEET**

The total column on the balance sheet is captioned Memorandum Only to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation.

**2. CASH**

Cash is composed of the following:

Petty cash on hand	\$100
Demand deposits	49,900
Cash on deposit with the state treasury	<u>90,139,268</u>
Total	<u><u>\$90,189,268</u></u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. The office has deposit balances (collected bank balances) of \$70,258 at June 30, 2003. These deposits are fully secured from risk by federal deposit insurance (GASB Risk Category 1).

**OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

Cash balances held and controlled by the state treasurer are secured from risk by the state treasurer through separate custodial agreements, and the risk disclosures required by accounting principles generally accepted in the United States of America are included within the state's basic financial statements. The following is a summary of cash in the state treasury:

Means of finance	\$91,749,351
Operating account	(1,741,779)
Escrow account	<u>131,696</u>
Total	<u><u>\$90,139,268</u></u>

**3. PENSION PLAN**

Substantially all employees of the office are members of the Louisiana State Employees Retirement System, a cost sharing, multiple-employer defined benefit pension plan. Required disclosures for the plan for fiscal year 2003 are included in the Louisiana Comprehensive Annual Financial Report prepared by the Louisiana Division of Administration, Post Office Box 94095, Baton Rouge, Louisiana 70804-9095.

**4. POSTEMPLOYMENT HEALTH CARE  
AND LIFE INSURANCE BENEFITS**

The office provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the office's employees become eligible for these benefits if they reach normal retirement age while working for the office. These benefits for retirees and similar benefits for active employees are provided through the office and the Prudential Insurance Company of America, the life insurance underwriter. The monthly premiums are paid jointly by the employee and the office. The office's costs of providing retiree health care and life insurance benefits are recognized as expenditures when the monthly premiums are paid. For the year ended June 30, 2003, the costs of retiree benefits totaled \$188,404 for 52 retirees.

**5. JUDGMENTS, CLAIMS, AND  
SIMILAR CONTINGENCIES**

The office is involved in 29 pending lawsuits at June 30, 2003, that have been reported to the Attorney General's Office and are not reflected in the accompanying financial statements. The office has been advised by legal counsel that, while it is impossible to ascertain the ultimate legal and financial responsibility with respect to such litigation as of June 30, 2003, it is the staff's opinion that the ultimate aggregate liability will be \$34,000. In addition, it is reasonably possible that an additional \$508,805 liability could be imposed. These amounts are not reflected in the accompanying special purpose financial statements, but the settlement amount would be paid by the office if judgment were rendered in favor of the plaintiff.

**OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

Claims and litigation costs of \$3,061 were incurred in the current year and are reflected in the accompanying financial statements.

Obligations and losses arising from judgments, claims, and similar contingencies not relating to health and life claims are paid through the state's self-insurance fund or by General Fund appropriation and are not reflected in the accompanying special purpose financial statements. The self-insurance fund is operated by the Office of Risk Management, the state agency responsible for the state's self-insurance program.

**6. COMPENSATED ABSENCES**

The liability for unused annual leave payable at June 30, 2003, computed in accordance with the *Codification of Governmental Accounting and Financial Reporting Standards* Section C60.104, is estimated to be \$1,363,188. The leave payable is not accrued (reflected) in the accompanying special purpose financial statements.

The liability for accrued compensatory leave at June 30, 2003, computed in accordance with the *Codification of Governmental Accounting and Financial Reporting Standards* Section C60, is estimated to be \$51,675. Accumulated compensatory leave is not accrued (reflected) in the accompanying special purpose financial statements.

**7. PAYABLES**

Payables at June 30, 2003, consist of \$25,595,341 for accounts payable and \$385,021 for accrued payroll payable.

**8. ESTIMATED LIABILITIES**

The estimated liabilities for health claims reported but unpaid (RBU) and incurred but unreported (IBU), as shown on Statement A in accordance with the instructions of the Division of Administration, Office of Statewide Reporting and Accounting Policy, total \$69,800,000 at June 30, 2003. The estimated liability for the RBU and IBU is based upon information submitted by the actuarial firm of Milliman USA, Inc.

**9. INTEREST EARNINGS**

The Office of Group Benefits does not maintain investment accounts. The State Treasurer's Office invests the office's idle funds. The amount of interest paid by the Treasurer's Office during the fiscal year was \$1,338,640.



**OFFICE OF GROUP BENEFITS**  
**DIVISION OF ADMINISTRATION**  
**STATE OF LOUISIANA**  
Notes to the Financial Statements (Continued)

**10. LEASE AND RENTAL COMMITMENTS**

The office has several noncancelable operating leases for rental of office and warehouse space. The annual operating lease payments for the next 15 fiscal years are presented as follows:

<u>Fiscal year</u>	<u>Office Space</u>	<u>Other</u>	<u>Total</u>
2004	\$680,892	\$84,274	\$765,166
2005	665,551		665,551
2006	644,841		644,841
2007	624,000		624,000
2008	624,000		624,000
2009-2013	3,120,000		3,120,000
2014-2019	3,432,000		3,432,000
Total	<u>\$9,791,284</u>	<u>\$84,274</u>	<u>\$9,875,558</u>

All lease agreements have non-appropriation exculpatory clauses that allow for lease cancellation if the Louisiana Legislature does not make an appropriation for their continuation during any future fiscal period. Total operating lease expenditures for fiscal year 2002-2003 amounted to \$895,487. The Office of Group Benefits does not have any capital lease agreements at June 30, 2003.

**11. INSTALLMENT PURCHASES**

In fiscal years 2000 and 2001, the office entered into various installment purchase agreements with the Division of Administration under the Louisiana Equipment Acquisition Fund Program for the purchase of equipment. The following is a summary of installment transactions of the office for the year ended June 30, 2003:

Balance at June 30, 2002	\$424,042
Installment payments	<u>(424,042)</u>
Total	<u><u>NONE</u></u>

**12. DEFERRED COMPENSATION PLAN**

Certain employees of the office participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397.

**OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

**13. ADVANCE DUE TO STATE TREASURY**

The office received an advance from the state treasury for imprest fund operations totaling \$50,000, as authorized by the commissioner of administration in accordance with Title 39 of the Louisiana Revised Statutes. The fund is permanently established and periodically replenished from office operating funds.

**14. UNRECORDED ESTIMATED LIABILITIES**

The office has not recognized a possible liability of approximately \$4,455,000 for a final invoice from the former prescriptions benefits manager, Merck Medco. This invoice has not been paid because of a dispute resulting from an audit performed on fiscal year 1998-1999 claims.

The office has not recognized a potential liability of approximately \$1,200,000 for Medicaid claims. This amount is based on claims submitted by the Health Management Systems, Incorporated, on behalf of the Department of Health and Hospitals. Medicaid is payor of last resort, and these claims were previously paid by Medicaid for plan members of the office.

The chance of either of these losses occurring is more than remote but less than likely. Therefore, in accordance with Financial Accounting Standards Board Statement 5, these potential liabilities are not recorded in the special purpose financial statements but are disclosed in the notes.

**15. GASB 34 ACCRUALS**

The following schedule presents the adjustments necessary to convert the modified accrual basis accounts receivable, as shown in Statement A, to full accrual basis accounts receivable as required by the Office of Statewide Reporting and Accounting Policy.

	Accounts Receivable Modified Accrual Basis	Full Accrual Adjustment	Allowance for Doubtful Accounts	Accounts Receivable Full Accrual Basis
Appropriated Revenues:				
Fees and self-generated	\$24,303,210	\$4,719,209	(\$22,453)	\$28,999,966
Appropriated Expenditures:				
Pharmaceutical rebates		3,620,970		3,620,970
Non-Appropriated Revenues:				
Agency funds	31,941			31,941

**OFFICE OF GROUP BENEFITS**  
**DIVISION OF ADMINISTRATION**  
**STATE OF LOUISIANA**  
Notes to the Financial Statements (Continued)

**16. RESTATED FUND BALANCE**

In the prior audit report, a \$4,455,000 final invoice from the former prescriptions benefits manager, Merck Medco, was included in accounts payable. The beginning fund balance has been restated because the chance of this loss occurring has been determined to be more than remote but less than likely. Therefore, this potential liability is not recorded in the special purpose financial statements but disclosed in note 14.

Fund balance (deficit) at June 30, 2002	(\$84,298,975)
Adjustment to accounts payable	<u>4,455,000</u>
Fund balance (deficit) at June 30, 2003, as restated	<u><u>(\$79,843,975)</u></u>

**17. SUBSEQUENT EVENTS**

- A) Effective July 1, 2003, OGB implemented a 12.4% aggregate rate increase for all health plan options.
- B) Effective July 1, 2003, the Exclusive Provider Option (EPO) contract with Blue Cross Blue Shield of Louisiana was not renewed. United Health Plans will administer the Region 6 EPO and OGB will administer the EPO throughout other regions of the state.
- C) Effective July 1, 2003, all plan members have the option of selecting a Managed Care Option (MCO) administered by F. A. Richard and Associates (FARA).
- D) Effective July 1, 2003, plan members have the option of selecting additional regions for the Ochsner Health Maintenance Organization. The additional regions are Region 2 (Houma/Thibodaux), Region 4 (Lafayette), Region 5 (Lake Charles), and Region 7 (Alexandria).
- E) Effective July 1, 2003, the maximum out-of-pocket copayment for prescription drugs increased from \$40 to \$50 per prescription.
- F) Effective January 1, 2004, premiums for the optional life insurance program will increase 10%.
- G) Effective July 1, 2003, Revised Statute 42:851(A)(1)(c)(iii)(c) increased the state's share of active employees' health insurance premiums from 65% to 75%.

**OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA**

Notes to the Financial Statements (Concluded)

- H) OGB was named in a \$9.7 million lawsuit filed on October 16, 2003, by the Rapides Parish Healthcare System, LLC dba Rapides Regional Medical Center and 13 other hospitals across Louisiana that are owned or managed by the Columbia/HCA national chain of hospitals. The suit alleges that OGB is responsible for the payment of the difference between the discounted amount paid and the full billed amount for claims not complying with the Preferred Provider Option contract, which states that failure of OGB to pay claims within 45 days shall result in the program paying the hospital total billed charges. The period of the alleged claims is March 1, 1999, through July 20, 2001.
- I) Act 528 of the 2003 Regular Session created the Louisiana Safety Net Program to increase the availability of health insurance to OGB and employers in Louisiana. OGB is proposing a pilot program, "SafeNet," for Region 6 in fiscal year 2005. The plan will be designed to offer a limited health option to state employees that do not have coverage. Proposals are due December 11, 2003, the tentative contract award date is scheduled for December 29, 2003, and the contract effective date will be July 1, 2004.
- J) OGB has entered into a cooperative endeavor agreement for a clinical trial of the possible costs and health benefits of a surgical treatment of morbid obesity with Louisiana State University Health Sciences Center, Department of Surgery and Tenet Health System Hospitals, Inc., dba St. Charles General Hospital for a gastric bypass pilot program. The agreement is effective October 16, 2003, through September 14, 2005, for up to forty morbid obesity surgeries with the maximum funding of OGB to be \$1 million.
- K) Effective September 1, 2003, United Behavioral Health replaced Magellan Behavioral Health, Inc., as the mental health and substance abuse provider for OGB.

**18. CHANGE IN REVENUES**

Revenues increased from approximately \$719 million in fiscal year 2002 to approximately \$913 million in fiscal year 2003. The majority of this \$194 million increase was attributable to a 17% aggregate rate increase effective July 1, 2002, and the receipt of \$87 million in accordance with Act 137 of the First Extraordinary Session of 2002, which was remitted to OGB by employers.

**OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA  
SUPPLEMENTAL INFORMATION SCHEDULE  
For the Year Ended June 30, 2003**

**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES -  
NON-APPROPRIATED FUND**

Changes in assets and liabilities for the Dependent Day Care/Health Care Flexible Spending Agency Fund for the year ended June 30, 2003, are presented on Schedule 1.

OFFICE OF GROUP BENEFITS  
 DIVISION OF ADMINISTRATION  
 STATE OF LOUISIANA  
 NON-APPROPRIATED FUND - AGENCY FUND

Schedule of Changes in Assets and Liabilities  
 For the Year Ended June 30, 2003

	BALANCE JULY 1, 2002	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2003
Dependent Care/Health Care Flexible Spending Account Plan				
<b>ASSETS</b>				
Cash	\$58,195	\$838,213	(\$764,712)	\$131,696
Receivables	401	31,732	(192)	31,941
<b>TOTAL ASSETS</b>	<u>\$58,596</u>	<u>\$869,945</u>	<u>(\$764,904)</u>	<u>\$163,637</u>
<b>LIABILITIES</b>				
Amounts held in custody for others	\$4,661	\$741,661	(\$711,707)	\$34,615
Other liabilities	53,935	128,284	(53,197)	129,022
<b>TOTAL LIABILITIES</b>	<u>\$58,596</u>	<u>\$869,945</u>	<u>(\$764,904)</u>	<u>\$163,637</u>

**OTHER REPORT REQUIRED BY**  
***GOVERNMENT AUDITING STANDARDS***

The following pages contain a report on compliance with laws, regulations, and contracts and internal control over financial reporting as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.



OFFICE OF  
**LEGISLATIVE AUDITOR**  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-9397

1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
TELEPHONE: (225) 339-3800  
FACSIMILE: (225) 339-3870

December 2, 2003

Report on Compliance and on Internal Control Over Financial Reporting  
Based Solely on an Audit of the Special Purpose Financial Statements  
Performed in Accordance With *Government Auditing Standards*

**OFFICE OF GROUP BENEFITS**  
**DIVISION OF ADMINISTRATION**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

We have audited the special purpose financial statements of the Office of Group Benefits, an office within Louisiana state government, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 2, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Office of Group Benefits' special purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Office of Group Benefits' internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the special purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters described below involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Office of Group Benefits' ability to record, process, summarize, and report financial data consistent with the assertions of management in the special purpose financial statements.



## LEGISLATIVE AUDITOR

### OFFICE OF GROUP BENEFITS DIVISION OF ADMINISTRATION STATE OF LOUISIANA

Compliance and Internal Control Report

December 2, 2003

Page 2

#### **Insufficient Monitoring of Contract Terms**

The Office of Group Benefits (OGB) did not adequately monitor the terms of three contracts. Good internal control requires the effective monitoring of contract terms for significant elements including, but not limited to, proper payment, deliverables, and scope of services. Without proper monitoring, OGB may have no recourse if the work product is not acceptable or if there is a disagreement about the scope or cost of the project.

Audit procedures disclosed the following instances:

- OGB exceeded the \$20 million payment limit by \$8.6 million on a contract with F. A. Richard & Associates (FARA). This contract related to FARA taking over the administration of the self-insured and self-funded managed care plan that was previously contracted with AmCare Health Plans of Louisiana, Inc. OGB had another contract with FARA for administration of a Region 6 (Baton Rouge) Exclusive Provider Option with a clause for maximum payment of \$50,000,000. OGB monitored payments to FARA for the contracts in total not to exceed \$70,000,000 instead of individually, thereby causing OGB to exceed the \$20 million contract payment limit.
- OGB used Wolcott and Associates to perform claims review/performance evaluation services of medical service claims for FARA and Blue Cross Blue Shield of Louisiana (BCBSLA) for the period July 1, 2002, through April 30, 2003. However, BCBSLA was not mentioned in the original contract or the two contract amendments. As a result, Wolcott and Associates performed services and OGB paid for those services without a contractual obligation.
- OGB contracted with BCBSLA to provide an Exclusive Provider Option for Region 6 (Baton Rouge) for the period July 1, 2002, through June 30, 2003. The contract with BCBSLA provided that OGB would receive a copy of the most recent annual independent audit conducted on the processing of transactions, pursuant to Statement on Auditing Standards (SAS) 70. However, no SAS 70 report was provided to OGB. This report would have provided OGB with independent assurance that BCBSLA claims were being properly processed and paid and may have caused the payments to Wolcott and Associates for the BCBSLA claims review to be unnecessary.

## LEGISLATIVE AUDITOR

### OFFICE OF GROUP BENEFITS DIVISION OF ADMINISTRATION STATE OF LOUISIANA

Compliance and Internal Control Report

December 2, 2003

Page 3

OGB does not have adequate contract monitoring procedures to ensure that contract terms adequately address services to be rendered nor do OGB monitoring procedures ensure compliance with contract terms. Failure to adequately monitor contract terms resulted in noncompliance with contract requirements and payment for services for which there was no contractual obligation.

OGB management should implement procedures to ensure that contract payments, deliverables, and scope of services are performed in compliance with contract terms. Management concurred and provided corrective action plans for the sections of the finding relating to the contract payment limit and the omission of BCBSLA from the contract. However, management did not concur with the section relating to the BCBSLA SAS 70 audit and noted that it was unfair to cite OGB for the failure of a vendor to perform specified services (see Appendix A, pages 1-2).

**Additional Comments:** Management's response failed to address why OGB paid for services that were not delivered as the cost of the SAS 70 audit was likely factored into the administrative fee charged by BCBSLA. In addition, management's response did not indicate what, if any, action was taken by OGB relative to penalizing BCBSLA for not complying with the contract.

#### **Deficiencies in Information Systems Security**

OGB does not have sufficient user access controls for the Integrated Statewide Information System (ISIS) or its health claims system (IMPACT). Good internal control would provide that employees are permitted business-need-only access to data files and functions necessary to perform their duties; the timely deletion of user ID codes; and that user IDs and passwords should not be shared with other employees.

A review of ISIS and IMPACT security revealed the following:

- Twenty-seven of 417 (6%) active IMPACT user IDs were determined to be either unnecessary or unused. Of these IMPACT user IDs, 23 were for employees/contractors that were no longer employed by the OGB for periods ranging from one week to 27 months. The remaining four user IDs consisted of two Information Technology Department user IDs that were not being used and two duplicate user IDs.

## LEGISLATIVE AUDITOR

### OFFICE OF GROUP BENEFITS DIVISION OF ADMINISTRATION STATE OF LOUISIANA

Compliance and Internal Control Report

December 2, 2003

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- Five of 30 (17%) active user IDs in ISIS, including the Advantage Financial System and the Advanced Governmental Purchasing System (AGPS) applications, were for employees no longer employed by the OGB for periods ranging from three to 14 months.
- Six employees were sharing ISIS user IDs and passwords. ISIS user IDs were shared in the fiscal section because of staff shortages and the inability of the security administrator to get the user access corrected timely.
- The OGB security administrator did not determine that employees had existing user IDs before requesting new user IDs, which allowed one employee to have two AGPS user IDs and two employees to have two IMPACT user IDs.

Failure to establish and follow control procedures for on-line data processing systems could result in the loss of data and the failure to prevent or detect errors or fraud in a timely manner.

Management of OGB should ensure the timely removal of user IDs of terminated employees/contractors and those user IDs that are determined not to have a valid business need. In addition, management should re-emphasize its security policies over user IDs and passwords. Management concurred with the finding and recommendation and outlined a corrective action plan (see Appendix A, pages 3-4).

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the special purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessary disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

**LEGISLATIVE AUDITOR**

**OFFICE OF GROUP BENEFITS  
DIVISION OF ADMINISTRATION  
STATE OF LOUISIANA**

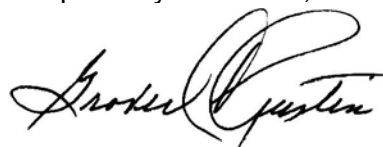
Compliance and Internal Control Report

December 2, 2003

Page 5

This report is intended solely for the information and use of the Office of Group Benefits and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Grover C. Austin". The signature is fluid and cursive, with a large, stylized initial "G".

Grover C. Austin, CPA  
First Assistant Legislative Auditor

DBS:EFS:PEP:ss

[OGB03]

## Appendix A

### Management's Corrective Action Plans and Responses to the Findings and Recommendations



State of Louisiana  
Office of Group Benefits  
P.O. Box 44036  
Baton Rouge, Louisiana 70804



November 14, 2003

Area offices

Alexandria

318.487.5731

800.813.1578

Baton Rouge

225.925.6625

800.272.8451

Lafayette

337.262.1357

800.414.6409

Lake Charles

337.475.8052

800.525.3256

Metairie

504.838.5136

800.335.6208

Monroe

318.362.3435

800.335.6206

Shreveport

318.676.7026

800.813.1574

TDD

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800.259.6771

Mr. Grover C. Austin, CPA  
First Assistant Legislative Auditor  
Office of Legislative Auditor  
P. O. Box 94397  
Baton Rouge, LA 70804

Re: Insufficient Monitoring of Contract Terms

Dear Mr. Austin:

The Office of Group Benefits (OGB) has reviewed the findings regarding insufficient monitoring of contract terms. Our response is provided below.

- **F. A. Richard & Associates (FARA) contract exceeded contractual limitation of \$20 million specified in the contract.**

We concur with this finding. The contract in question provided for the payment of claims which OGB was obligated to fund regardless of contract limitation. Financial limitations are not applicable to these types of contracts, however, we are aware of that such provisions are required and we will modify procedures as needed to comply.

- **Failure to include Blue Cross and Blue Shield of Louisiana (BCBS) as an audit item in a contract issued to Wolcott & Associates.**

We concur with this finding. It was intended that Wolcott & Associates would audit claims paid by F. A. Richard & Associates and BCBS. Through administrative error BCBS was not included in the contract language. We will institute procedures and modify contract language as necessary to address this problem and prevent future occurrences.

An  
Equal  
Opportunity  
Employer

Page 2  
Mr. Grover Austin, CPA  
November 14, 2003

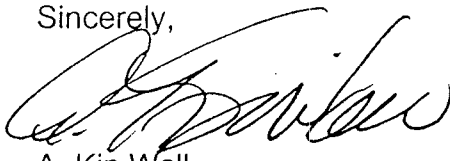
➤ **Failure of the Office of Group Benefits to obtain a Statement of Auditing Standards (SAS) 70 from Blue Cross and Blue Shield of Louisiana (BCBS).**

OGB does not agree with this finding. We maintain that BCBS was on notice of the SAS 70 requirement through language included in the Notice of Intent to Contract and the actual contract, copies of which are included. BCBS declined to provide the SAS 70 as requested by OGB. We believe that it is inherently unfair to cite this agency for the failure of a vendor to perform specified services.

If it is the policy of the Office of Legislative Auditor to obtain a SAS 70 for certain contractors, it would be beneficial to have written guidance in this area. I would also suggest that it would be preferable for the SAS 70 to be performed by a party selected by the contracting agency. Allowing the vendor to select a firm to conduct a SAS 70 may raise questions regarding the independence and the competence of the party conducting the audit. Regardless, written guidance should be issued prior to citing an agency for failing to obtain a SAS 70.

Thank you for the opportunity to respond to these issues. If I may provide additional information or assistance, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Kip Wall", written over a horizontal line.

A. Kip Wall  
Chief Executive Officer



State of Louisiana  
Office of Group Benefits  
P.O. Box 44036  
Baton Rouge, Louisiana 70804



September 5, 2003

Mr. Grover C. Austin, CPA  
First Assistant Legislative Auditor  
Office of the Legislative Auditor  
State of Louisiana  
1600 North Third Street  
Baton Rouge, LA 70804-9397

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800.259.6771

Re: Deficiencies in Information Systems Security

Dear Mr. Austin:

We concur with your conclusion. We have been working on automating the security process that will minimize such problems in the future.

The new process is a role based automated function. The HR department sets up a user when he/she is hired by simply assigning him/her a role in the system. The system automatically sets the user on various applications including creating an email account. The system will also send messages to appropriate departments when a new employee is set up.

Similarly when an employee is terminated or resigns the HR department will simply suspend him/her on the system and the system will automatically suspend all his/her access to all applications including email. This process will eliminate manual process that is prone to human errors. The contractors will also be added and terminated by HR Department at the request of the project manager.

We have also enhanced our security through the use of Biometrics. All users identify themselves through their fingerprints. This will also eliminate possibility of sharing passwords.

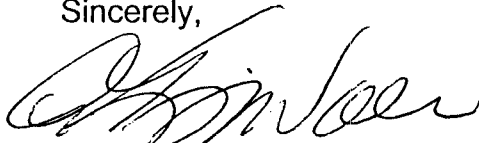
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Mr. Grover C. Austin, CPA  
September 5, 2003  
Page Two

The new process is under testing and we are planning to complete all phases of implementation by the end of this year.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Kip Wall". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

A. Kip Wall  
Chief Executive Officer

Cc: Rizwan Ahmed, Chief Information Officer